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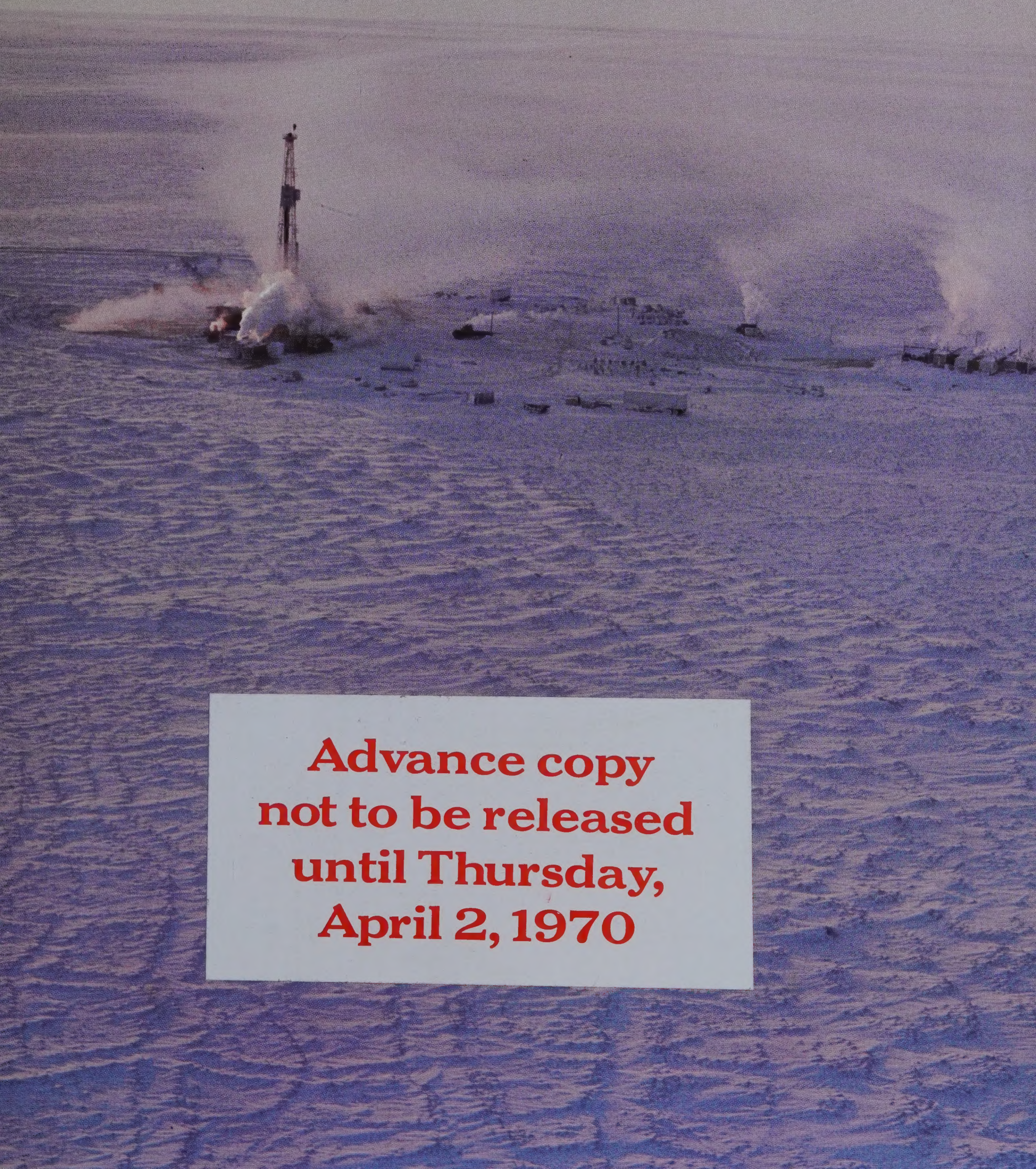
Imperial Oil Limited Annual Report 1969



Advance copy not to be released until Thursday, April 2, 1970

Front Cover: Imperial's discovery rig at Atkinson Point, N.W.T., on the Arctic coast.

Above: Part of the control room of the new coker complex at Sarnia refinery.

Inside Back Cover: Imperial has led in the development of car care centres. The company had 41 of these in operation across the country at the end of 1969.

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Imperial Oil Limited Annual Report 1969

DIRECTORS

J. A. Armstrong
J. A. Cogan
L. D. Fraser
J. W. Hamilton
J. G. Livingstone
J. F. Mathis
T. F. Moore
R. S. Ritchie
V. Taylor
W. O. Twaits

OFFICERS

President
W. O. Twaits

Executive Vice-President
J. A. Armstrong

Senior Vice-Presidents
J. A. Cogan
L. D. Fraser
T. F. Moore
V. Taylor

Vice-Presidents
J. W. Hamilton
J. G. Livingstone
J. F. Mathis
R. S. Ritchie

General Secretary
G. M. Henderson

Comptroller
G. R. McLellan

Treasurer
D. W. McGibbon

General Counsel
J. F. Barrett, Q.C.

Imperial Oil Limited was incorporated under the Canada Joint Stock Companies Act, 1877 on September 8, 1880. Its head office is at 111 St. Clair Avenue West, Toronto 7, Ontario.

Principal subsidiaries of Imperial are: Atlas Supply Company of Canada Limited, Building Products of Canada Limited, Champlain Oil Products Limited, Home Oil Distributors Limited, Imperial Oil Enterprises Ltd.

Principal investments and percentage interest in other companies are: Interprovincial Pipe Line Company, 33; Trans Mountain Oil Pipe Line Company, 8.6; Montreal Pipe Line Company Limited, 32; Rainbow Pipe Line Company, Ltd., 33.3; Tecumseh Gas Storage Limited, 50; Syncrude Canada Ltd., 30.

Imperial Oil Limited shares may be transferred at the following offices: head office of Imperial Oil Limited; principal offices of Montreal Trust Company at Halifax, N.S., Montreal, Que., Toronto, Ont., Winnipeg, Man., Regina, Sask., Calgary, Alta., Vancouver, B.C.; Bankers Trust Company, New York, N.Y.

The annual meeting and a special general meeting of shareholders will be held at 11:00 a.m., Thursday, April 23, 1970, in the Canadian Room, Royal York Hotel, Toronto, Ontario.

Financial and Operating Highlights

FINANCIAL

		1969	1968
dollars in millions except per share amount			
Earnings	$	94	100
per share	¢	73	78
change from previous year	%	(6.1)	4.7
as % of shareholders' investment	%	10.2	11.3
Dividends paid to shareholders	$	68	67
per share	¢	52½	52½
as a % of earnings	%	72	67
Shareholders' investment at year end	$	933	906
per share	$	7.26	7.05
Capital and exploration expenditures	$	134	188

OPERATING

	1969	1968
thousands of barrels per day		
Petroleum product sales	381	378
Crude oil processed at refineries	377	359
Crude oil and natural gas liquids production		
gross	179	173
net	154	150
Natural gas production *millions of cubic feet per day*		
gross	390	381
net	331	326
Gross recoverable reserves*		
crude oil and natural gas liquids (millions of barrels)	1,702	1,593
natural gas (billions of cubic feet)	3,340	3,117

**After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved.*

Left: Imperial intensified its search for minerals during 1969. Here diamond drilling is being carried out near Kimberley, B.C.

Far left: Drilling at Atkinson Point where temperatures may fall as low as 60 degrees below zero.

Report to the Shareholders

Imperial's operations reached new highs during 1969. Production of crude oil and natural gas and volumes of petroleum and chemical products manufactured and sold were at record levels. Earnings, however, did not keep pace: for the first time in 11 years they were lower than those of the previous year. The downturn was the result of a number of factors: changes in federal income tax regulations; product price levels which have not kept pace with the continuing rise in labor, material, and service costs; economic conditions on the prairies; and new plant start-up difficulties.

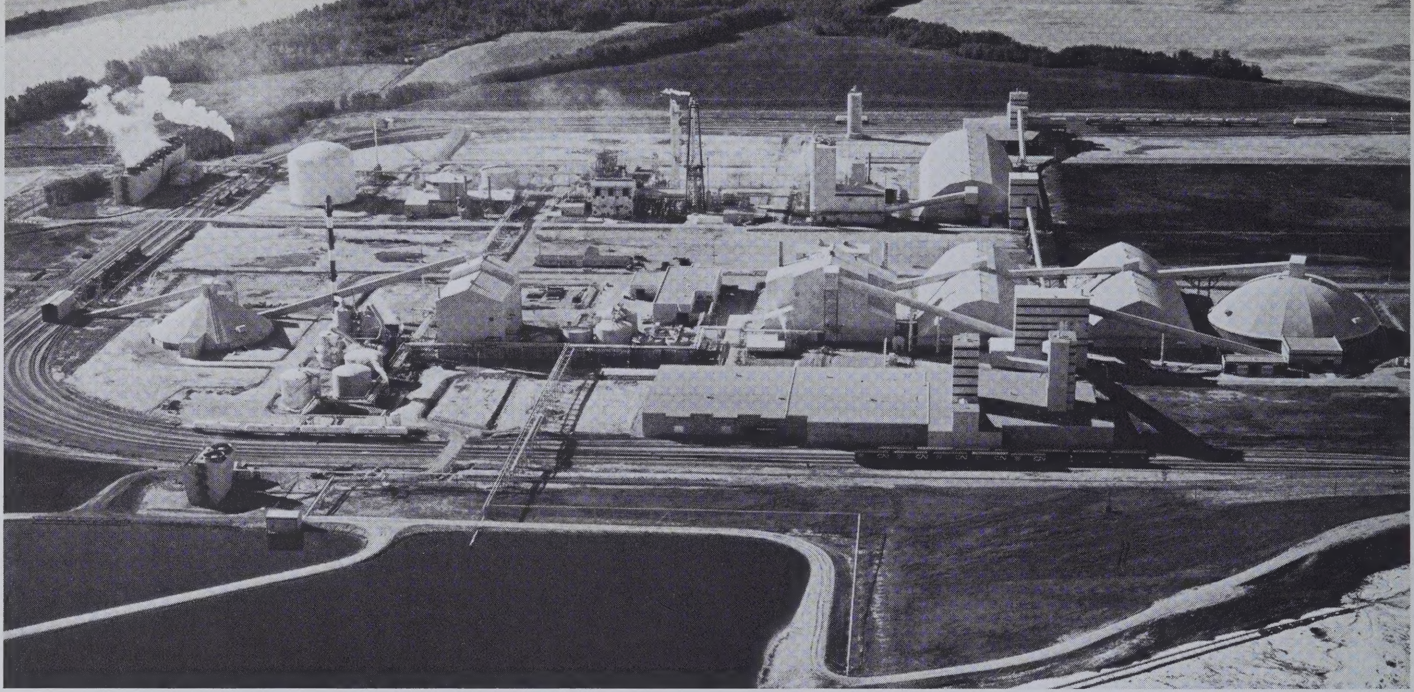
While the decline in earnings and the general slowdown in the Canadian economy are of concern, the basic strengths of the company and the prospect for continued growth remain unchanged. Indeed, as noted subsequently, if the necessary community of viewpoint between government policies and the needs of industry can be achieved, the outlook for the 1970's is very bright and Imperial is in a position to participate fully. The necessity of a community of viewpoint cannot be overemphasized: changes in environmental factors involving fiscal, monetary and trade policies of governments can significantly affect the economy generally and with it the company.

Details of the company's 1969 financial and operating activities will be found in following sections of this report. On the operations side, the year saw the completion, or the continuation, of major projects started in earlier years and referred to in earlier reports. It was felt, therefore, that this section of the report would be more interesting and more significant to the shareholders if it were to review Imperial's progress in the 1960's and make some assessment of what the future holds — to provide the shareholder with a perspective on the strengths and resources of the company. In this connection the company's discovery of oil at Atkinson Point on the Arctic coast early in 1970 is an indication of the exciting possibilities that lie ahead.

A number of developments stand out in such a review. Imperial not only continued to be Canada's principal supplier of energy, during the decade the company also became a leading supplier of primary and intermediate chemicals. In 1963 its revenues from all sources passed the billion dollar mark. Total assets grew from $884 million to $1.5 billion.

Imperial's growth during the last 10 years was the result of an investment policy designed not only to equip the company to meet long term as well as immediate needs for crude oil and for petroleum and chemical products, but to take advantage of opportunities in fields associated with its raw materials and technological knowledge. Minerals exploration was started in 1965; today the company has one of the most active programs in the country. During the decade Imperial also extended into the associated fields of building materials and certain plastics products complementary to chemicals.

Between 1960 and 1969 the company's capital and exploration expenditures totalled $1.2 billion. These expenditures reflect two prime characteristics of the oil industry. One is that finding new reserves of raw materials, and providing for growing product demand, require very large sums of money. The second is the lengthening lead time



Imperial's new fertilizer plants at Redwater, Alberta. In building the plants more than $4 million was spent on pollution control facilities, one of which is the retaining pond in the foreground.

between the discovery of new reserves, or the start of construction of major facilities, and return on the investment involved. The current expansion program at Sarnia, begun in 1964, is a case in point — major capital projects involving complex new technology cannot be constructed and brought into operation without problems in timing and operability.

In the 10 years under review Imperial's exploration program resulted in a number of discoveries, including significant finds in the Mitsue and Rainbow-Zama areas of Alberta. These discoveries increased the company's reserves of crude oil and natural gas in the face of steadily increasing production volumes. In the period 1960 to 1969, Imperial wells produced 500 million barrels of oil and 875 billion cubic feet of natural gas. In the same period remaining crude oil reserves grew from 882 million barrels to 1.7 billion barrels, natural gas reserves from 1.4 trillion cubic feet to 3.3 trillion cubic feet.

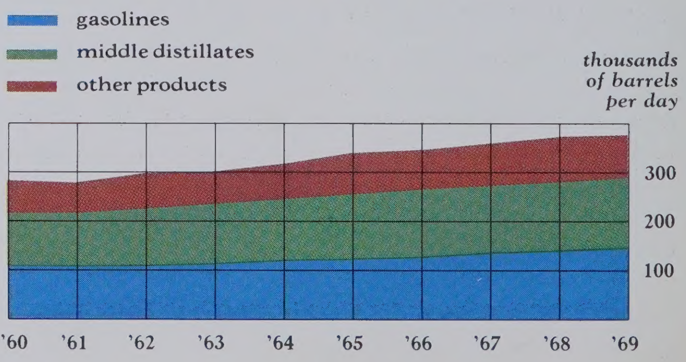
Technological innovation, stemming from a steadily growing research and development program, was a highlight of company operations in the '60s. Advances in reservoir engineering, for example, helped the company increase its recoverable reserves in the face of constantly growing production. As another example, the completion of the current construction program at Sarnia will provide the company not only with increased capacity for manufacture of both fuels and chemical products, but with the most sophisticated refinery in the country. Featuring an "on line" computer, the first in the country, the refinery converts most of the crude processed into high quality, higher value products.

Innovation also keynoted the company's sales efforts. In the retail gasoline field, activities reflected new purchasing patterns resulting from rapid urban growth and extension of trunk highway systems, as well as changing consumer attitudes and expectations. The company's response ranged from the introduction of large car care centres, many with diagnostic clinics, to "village store" kiosks at the pump island.

In the home field, the company broadened its line of appliances, and introduced a number of new products for use in the home or in recreation.

Several steps were taken to strengthen the company's rapport with its dealers and agents. Early in the 1960's an advisory board system was introduced to provide forums where representatives elected by dealers and agents can meet with company representatives to exchange ideas, talk over problems, and recommend improvements. In the agency field, results of these discussions have included a new savings plan and expanded group

PETROLEUM PRODUCT SALES



The company continued to expand its chain of Voyageur restaurants and at year-end had 28 in operation across Canada.

insurance coverage. For dealers, they have included a redesigned rental formula, extension of terms of service station leases, and an improved group insurance and income protection plan. During 1969, after several years of study, Imperial introduced a plan under which arbitration boards were set up across Canada in order to help settle differences of opinion that may arise between the company and its dealers.

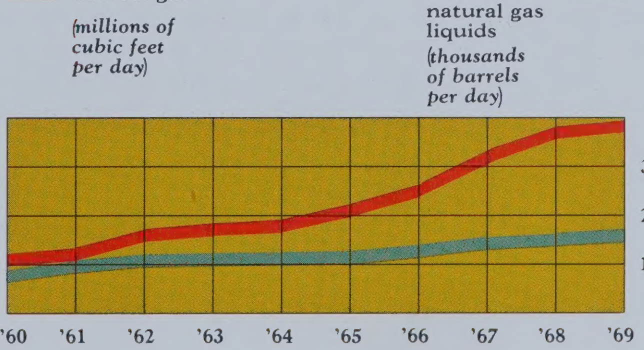
One factor above all influenced the company's petroleum marketing operations during the 10 years under review. This was intense competition. Extension of competitor operations into new areas of the country, the entry of new companies, the growth of private brand operations, all combined to produce an extremely competitive environment. One result was the introduction by the industry of games and other promotions which hit a peak in the mid-sixties. Another and more significant result was seen in the area of prices — petroleum product prices were depressed during most of the decade. There was some improvement in some areas during 1969, but in many markets the amount the company received for Esso gasoline, for example, was lower at the close of 1969 than in 1960.

As mentioned earlier, the pattern of company operations changed significantly during the decade. This was particularly evident in the chemicals field, where the company's investment now totals more than $150 million in 20 plants across the country as compared with only three plants and an investment of $40 million in 1960. Sales of chemical products during the decade totalled $470 million.

During the sixties, the role of business in society came in for increasing scrutiny. More and more, the public is looking to business to play a role beyond the provision of goods and services and the employment of labor. Imperial has long believed that a corporation has a responsibility for citizenship; in discharging this responsibility it has followed a practice of anonymity. However, because of increasing public concern over the social role of business, the company feels its shareholders would wish to have some measure of company policy in this regard. To take just one example, over the past 10 years Imperial has contributed, through payments and pledges, nearly $10 million to education in Canada — contributions which have ranged from grants for university capital projects to fellowships and scholarships.

Public concern over pollution also grew markedly during the decade. Imperial has a long record of pollution control; its activities in this field go

GROSS PRODUCTION, CRUDE OIL AND NATURAL GAS




Esso
Esso
Esso
IMP AL

Left: *A new franchise system for dealers was introduced by Imperial during 1969. It will provide motorists with a higher standard of service than ever before.*

Above: Technician uses headlight testing equipment at one of the company's many car clinics.

back many years — to times when there was little public concern and little if any legislation regarding air, water and soil conservation. Over the past 10 years alone the company has spent more than $40 million for facilities that directly and indirectly protect the environment: it is anticipated even larger expenditures will be made in the years to come.

Any review of the last 10 years would be incomplete without a word about employees. In the realization that the company's success depends upon the talents and skills of these men and women and on the interest they bring to their responsibilities, employee recruitment and training is regarded as a major management responsibility in Imperial and development of professional and management personnel a prime concern of the board of directors. Coupled with this has been the maintenance of an environment that will attract and retain people of high calibre. In 1966, after several years of intensive reassessment, the company made major changes in its benefits program to meet changing conditions and to increase the security and protection of the people it employs. Since 1960 the average amount paid to employees in salaries, wages and benefits has risen from $7,000 annually to $10,500. In the field of personnel development, the company conducts specialized training courses as well as sending selected employees to advanced management training courses at Canadian and U.S. universities. In the last 10 years some 2,500 employees participated in these programs. In addition, under the company's educational refund plan 6,500 employees availed themselves of outside studies related to their work responsibilities.

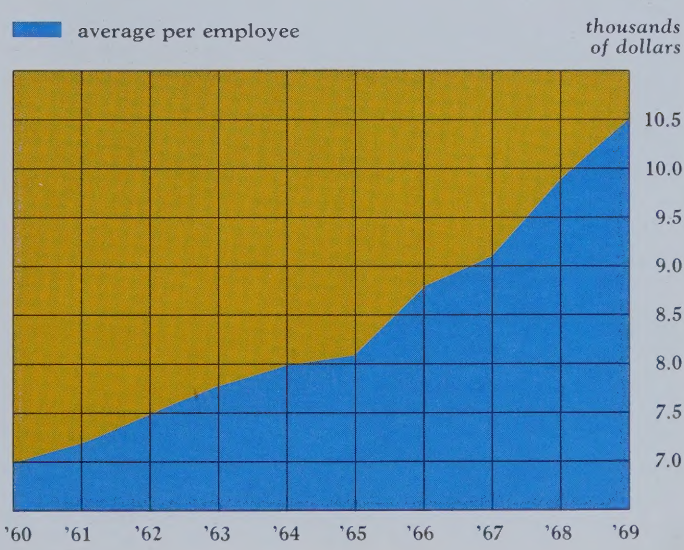
In summary, the past decade was a period during which Imperial continued to grow with Canada. The company is Canada's major supplier of energy and a leading supplier of primary and intermediate chemicals. It has been in the forefront of oil and gas exploration and has contributed markedly to the development of Canada as an important oil producing nation. Its expenditures, not only for capital projects but for materials, goods and services, have been a potent force in the growth of the Canadian economy. It has acted as a responsible corporate citizen.

In assessing what lies ahead for the company and the Canadian oil industry generally, several factors must be taken into consideration. One is the Canadian economic outlook. For a number of years the growth of the petroleum industry has closely paralleled that of real growth in Gross National Product. The performance of the industry in the years ahead will, therefore, be geared closely to the performance of the economy.

The major problem facing the economy at this time is inflation. For the individual, this has meant a steady erosion in the purchasing power of the dollar. For industry, it has meant a cost-price squeeze, scarcity of capital for expansion, and very high interest rates for capital that is available.

Predictions are that Canadian economic growth will flatten somewhat during the early 1970's and then, assuming inflation can be brought under control, take a sharp upward turn. By 1980 it is estimated real GNP will be $165 billion, up 67

SALARIES, WAGES AND BENEFITS



per cent over 1969. Energy demand is expected to grow proportionately, and it is anticipated oil and natural gas will continue to supply some 75 per cent of this demand. In volume terms, this means that by 1980 domestic demand for liquid hydrocarbons will be 2.2 million barrels a day, up 56 per cent over 1969, and demand for natural gas will be five billion cubic feet per day, up more than 100 per cent over 1969.

An unknown factor facing the industry today is the extent to which proposals for tax reform outlined in the government's White Paper will be implemented, and the manner in which they will be implemented. As originally written, the proposals would increase income taxes of industry in general and of the oil and gas industry in particular. For the economy as a whole they would inhibit savings and impede economic growth. Some of the proposals have been admitted by the Minister of Finance to be unworkable and revisions are anticipated.

A major influence in the long term outlook for the Canadian oil industry will be the position of the Canadian government toward the National Oil Policy. When this policy was introduced in 1961 it could only partly envisage the major developments of the past 10 years in world trade patterns in oil. As a result of these developments, re-examination of the National Oil Policy is in order, including its lack of effectiveness in stemming the increasing movement of foreign source products westward across the NOP line. While it can be anticipated that the Canadian government will adjust its oil policy in response to changing conditions, no revisions in this had been announced as this report went to press.

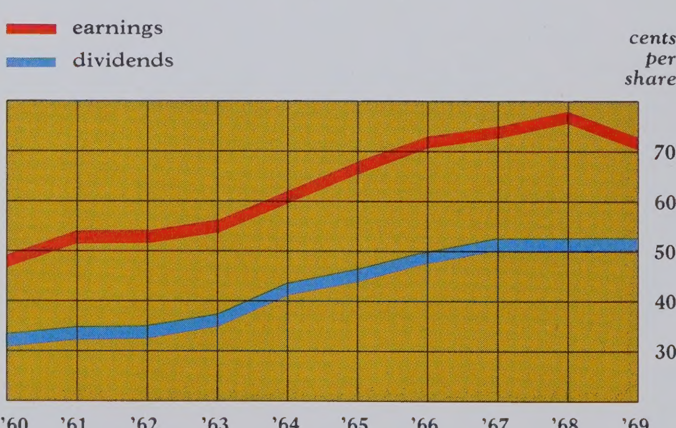
As well as the apparent adjustments required in the National Oil Policy, two other major factors will influence the place of Canadian crude in the North American supply pattern. One is the outcome of the current comprehensive U.S. government examination of its oil import policy: both the majority and minority reports of the cabinet committee appointed to conduct the imports study have stressed the need for security of oil supply and the special place of Canadian oil in this framework. The other is the success of exploration and pace of development in the Canadian Arctic and offshore in the Atlantic.

Currently, Canadian wells have the capacity to supply a larger share of the North American market than they are now serving. And there is reason to look forward to discoveries of major new reserves in Canada. Great sedimentary basins underlie the country's Atlantic coastal shelf. Geological conditions in Canada's Arctic coastal area, where the company made an oil discovery in early 1970, are similar to those of the Alaska North Slope which gives every indication of becoming one of the largest production areas discovered in North America.

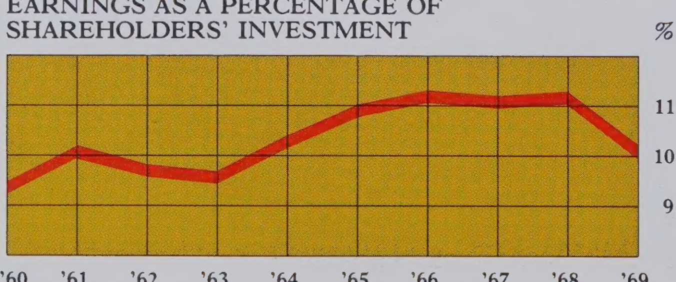
The logistics of moving oil to market will have a direct bearing on the rate of activity in these frontier areas, and research into oil movement from the Arctic is being given priority attention. Whatever the outcome of this research, two facts are already apparent about frontier oil development. One is cost — billions of dollars will have to be spent. The other is lead time. The original discovery at Prudhoe Bay on the Alaska North Slope, for example, was made in 1968; best estimates are that oil from the North Slope will not start to move to market before 1973.

Development of its frontier areas will bring tremendous benefits to Canada as a whole. Not only will it mean very large expenditures, with resulting impetus to the economy, Canadian citizens will benefit greatly from resulting royalty payments to their governments. All concerned must recognize, however, that oil produced from these areas will carry additional costs as compared with other producing areas. If developments in these areas are to be viable — if their great potential

EARNINGS AND DIVIDENDS PER SHARE



EARNINGS AS A PERCENTAGE OF SHAREHOLDERS' INVESTMENT



High school business students and their teacher chat with W. O. Twaits during last year's annual meeting.

contributions to the Canadian nation are to be realized — the competitive handicaps resulting from the environment in which they will be undertaken must be minimized. They simply cannot carry unduly heavy burdens of regulation and taxation.

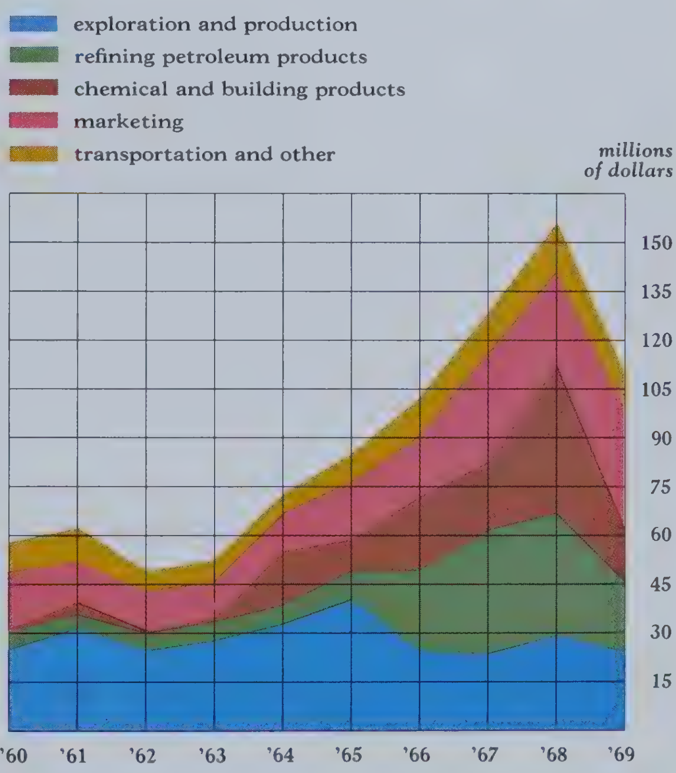
In the review of the past decade, reference was made to Imperial's activities related to environmental protection. In all fields — research into protection of the tundra, basic design of facilities, the products area — the company will continue to carry out its policy which calls for it not only to comply with government regulations but to provide such additional protection of the environment as is technologically feasible and economically practical.

Mention was also made earlier of the social role of business. Primarily, this is the employment of labor and capital in providing efficiently the goods and services society requires. In order to do this, companies must secure an adequate return on investment. However, companies must be conscious also that there is growing public belief that business must broaden its viewpoint and, while still pursuing its primary role, be concerned more with a broadening range of social objectives. How, therefore, Imperial can best continue to discharge its social responsibilities — the extent to which business expertise can help meet social needs, and the way in which corporate action can best be directed to meet changing social expectations — are questions to which Imperial is continuing to address itself as it heads into the 1970's.

The last 10 years saw Imperial and the Canadian oil industry respond superbly to the growing energy and chemical needs of the nation. The coming decade gives every promise of even more exciting growth. With the technological and management capabilities of its personnel, with its broad investment base, and with its financial resources, Imperial will continue in the forefront of the oil industry's development and of its contributions to Canada.

W.O. Twaits, president

CAPITAL EXPENDITURES



Left: A member of the company's Calgary research laboratories studies oil and gas traces in source rocks.

Far left: A section of the new coker unit at Sarnia refinery, heart of new facilities that convert most of the crude processed into high quality, higher value products.

Financial and Operations Review

Detailed statistics on the company's financial position and on its operations will be found in the Ten Year Summary at the conclusion of this report.

FINANCIAL

Following are highlights of the company's financial activities for 1969.

☐ Earnings after taxes were $94 million, or 73 cents per share, compared with $100 million or 78 cents per share in 1968. These represented a 10.2 per cent return on shareholders' investment, compared with 11.3 per cent in 1968.

☐ Dividends totalled 52½ cents per share, unchanged from 1968. Total dividends paid amounted to $68 million, or 72 per cent of earnings.

☐ Capital expenditures were $109 million; exploration expenditures $25 million.

☐ Revenues from all sources totalled $1.5 billion, an increase of 5.6 per cent over 1968.

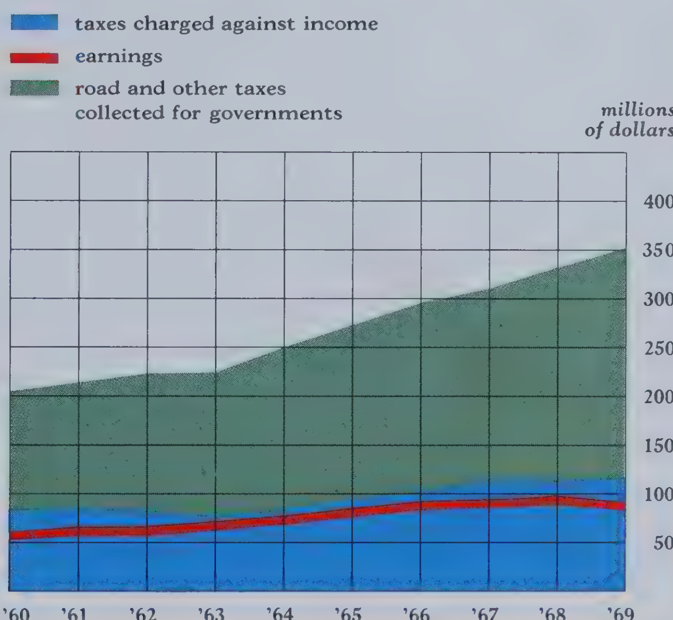
☐ Income taxes were $50 million, an increase of $1 million over 1968. Total taxes charged against income were $120 million, compared with $115 million in the previous year. Road and other taxes collected on behalf of governments were $233 million. Total taxes generated by the company amounted to $353 million, more than three times what the company earned during the year and five times the amount it returned to its shareholders in the form of dividends.

In addition, the company paid $27 million to governments for oil and gas royalties and to acquire and retain exploration rights.

☐ Total assets at year end were $1.5 billion, compared with $1.4 billion at the end of 1968. Working capital amounted to $301 million at year end: the ratio of current assets to current liabilities was 2.4 to 1.

☐ In August the company received proceeds from a $50 million sinking fund debenture issue bearing interest at 8½ per cent. Term of the issue is 20 years; however, because of market conditions, purchasers were given the option of prepayment at the end of five years. Proceeds of the issue were used to repay outstanding bank loans. To gain access to other sources of capital, the company also began the issue of short term promissory notes in the latter half of the year. Maximum

TAXES COMPARED WITH COMPANY EARNINGS




The company's newest tanker, Imperial Bedford, went into service on the east coast in 1969. The ship is ice-strengthened for year round navigation.

term of these notes is 365 days.

☐ Subsequent to the four-for-one split of the company's stock, which became effective on January 17, 1969, the number of Imperial shareholders increased 33 per cent, from 37,780 to 50,188, during the year.

OPERATIONS

During 1969 volumes of crude oil and natural gas produced, and of petroleum and chemical products manufactured and sold, reached new highs.

Exploration and Production

The company's program of exploration for oil and natural gas is being directed increasingly toward the Northwest Territories and offshore in the Atlantic. In 1969 more than 60 per cent of Imperial's exploration program expenditures were made in these frontier areas compared with 30 per cent in 1968 and 25 per cent in 1967.

Imperial Oil Enterprises, a wholly-owned subsidiary, holds exploratory permits on 10 million acres in the frontier area of the Mackenzie River Delta region of northern Canada. Late in the year the company had three seismic crews and two rigs active in the area. In early 1970, oil was discovered by the rig at Atkinson Point, which is located on the Arctic coast some 100 miles northeast of Inuvik. During a drill stem test a medium gravity sweet crude oil flowed to the surface from Cretaceous sands at a depth of 5,700 feet. As this report went to press a third rig was being transported to the Arctic and the discovery rig was being dismantled so that it could begin drilling a step out well. A fourth seismic crew was also at work in the general area.

Imperial is also active in another frontier exploration area, the Grand Banks off Newfoundland, where the company has a one-half interest in 40 million acres. Seismic surveys were continued during the year in this area and drilling will resume when a semi-submersible drilling vessel, being built at Halifax, is completed.

The company's search for minerals continued at a high level with crews active in eight of the 10 provinces and the Yukon Territory. At year end the company was particularly interested in prospects for copper in the Yukon and for uranium in northern Saskatchewan. Tests of the columbium discovery which the company made earlier in the James Bay area of Ontario were completed. Because of rapidly escalating capital costs and the current limited market for this mineral, development of the discovery has been deferred.

Gross production of crude oil and natural gas liquids totalled 179,000 barrels per day, an increase of 3.5 per cent over the previous year. Gross production of natural gas increased 2.4 per cent to 390 million cubic feet per day.

In 1969 some $20 million was spent on development drilling, secondary recovery projects, gas plants and other production facilities. Major secondary recovery projects went into operation in the Joffre field and in the Rainbow-Zama area. At Quirk Creek in the Alberta foothills, where the company participated in a natural gas discovery in 1967, construction of a processing plant was begun. Capacity of the plant, in which Imperial has a 50 per cent interest, will be 90 million cubic feet of gas per day.

AVITAT, a new franchise operation which services private and business aircraft, went into operation in 1969 at Montreal.

Development drilling on the company's holdings in the Rainbow-Zama area of Alberta neared completion in 1969. Sixteen wells were drilled, bringing to 121 the number drilled since discovery of the field in 1965.

During the year the participants in Syncrude Canada Limited, in which Imperial has a 30 per cent interest, received Alberta government approval to construct an 80,000 barrel-per-day plant to recover oil from the Athabasca Tar Sands. Under the terms of the approval, the plant could be producing in 1976 provided economic conditions are favorable.

At Cold Lake, the company holds very large reserves of viscous oil which cannot be produced by conventional means. Experimental work both in the laboratory and the field was continued in an effort to develop an efficient method of recovery.

Transportation

Imperial's newest oil tanker, the 14,000 deadweight ton "Imperial Bedford", went into service in July in eastern Canada. Designed by the company's marine division, the new vessel is ice-strengthened to give it capability for year-round navigation. The 4,500 deadweight ton tanker, the "Imperial Skeena", was launched at Vancouver late in the year and will go into service in early 1970 moving products from the Ioco refinery to west coast ports.

During the year Imperial joined in a plan under which certain tanker owners agreed on steps to be taken if a discharge of oil occurs from a participating tanker and on the indemnity, up to a maximum of $10 million U.S., to be paid out of an insurance fund to governments for the costs they

Sales of Atlas Supply Company of Canada grew substantially in 1969. Atlas is now handling TBA requirements for Esso affiliates around the world.

may incur in preventing and removing resulting pollution damage. Called TOVALOP, (for Tanker Owners Voluntary Agreement Concerning Liability For Oil Pollution), the arrangement is subscribed to by owners, other than governments, of about 70 per cent of the world's tanker tonnage.

To find the answers to some problems connected with the logistics of crude oil transportation from the Canadian Arctic, Imperial joined with eight other companies in 1969 in the formation of Mackenzie Valley Pipe Line Research Limited. The new company is studying construction and operational aspects of oil movement by pipe line in this area. Feasibility of tanker movement is being analyzed by Humble Oil and Refining Company, the Imperial affiliate responsible for the voyage of the "SS Manhattan" through the Northwest Passage.

Petroleum Products

Imperial's nine refineries operated at close to capacity during the year. Total throughput averaged 377,000 barrels per day, some five per cent higher than the previous year. Of the crude processed, 63 per cent was Canadian; the balance, for Imperial refineries east of the National Oil Policy line, was from foreign sources.

Capital expenditures in 1969 for petroleum refining

were $20 million. New units for production of higher yields of improved quality gasolines and for removal of sulphur from heating oils, and new facilities for product blending and storage, were installed at Sarnia. Additional crude processing equipment was put into operation at Edmonton.

During the year the company continued to experience costly supply problems arising from difficulties associated with recently installed units at Sarnia. At year end these difficulties had been largely resolved.

In May, members of the Oil, Chemical and Atomic Workers (OCAW), went on strike at all refineries in the Vancouver area. During the strike, which lasted for 163 days, operations at Imperial's Ioco refinery were carried out by supervisory personnel and there was no interruption in production. Operating costs were, however, much higher than normal during the strike because of the unusual conditions.

In 1969 the company's sales of petroleum products were 381,000 barrels a day. Sales of gasoline and turbo fuels showed the largest increase.

In the automotive field a highlight of the year was

Left: Helicopter lowers small drilling rig to test soil conditions as part of Mackenzie Valley pipe line research.

Imperial spent more than $40 million directly and indirectly on anti-pollution facilities during the last decade. Below left, organic material is reduced by specially developed bacteria at Sarnia refinery; below right, an operator examines a sulphur sample at Winnipeg refinery where sulphur is extracted from hydrogen sulphide in refinery gases.

the announcement by the company of a new dealer franchise system. Under the plan, which was launched after several years of study, Imperial contributes intensive training, specialized business counselling and more security to those who become franchisees. In return the franchisee will provide his customers with a higher standard of service than ever before. The new plan clearly recognizes the operating requirements of service station dealers and provides for a balance of obligations on the part of the dealer and the company.

Elsewhere in the automotive field Imperial continued its efforts to provide the motorist with better services. Five more car care centres were opened, bringing to 41 the number now in operation across Canada. Services available through use of the Esso credit card — which is now one of the most widely used credit cards in Canada — were expanded further to include Canadian Pacific, Canadian National and Hilton hotels in Canada. The company expanded its chain of Voyageur restaurants; at year end 28 were in operation.

Atlas Supply Company of Canada Limited continued its aggressive sales effort in both domestic and export markets. The company, which is an Imperial Oil subsidiary, supplies export as well as domestic markets with tires, batteries and automotive accessories (TBA). During the year its export operations were expanded. Atlas is now handling TBA requirements for Esso affiliates around the world. In total, its sales increased 21 per cent in 1969.

The spectacular growth in demand for aviation fuels and in aviation itself led the company to develop a new franchise operation to service private and business aircraft. Called AVITAT, it offers full aircraft services as well as terminal facilities for passengers and aircrew. The first AVITAT installation was opened in Montreal late in the year and others are in the planning stage.

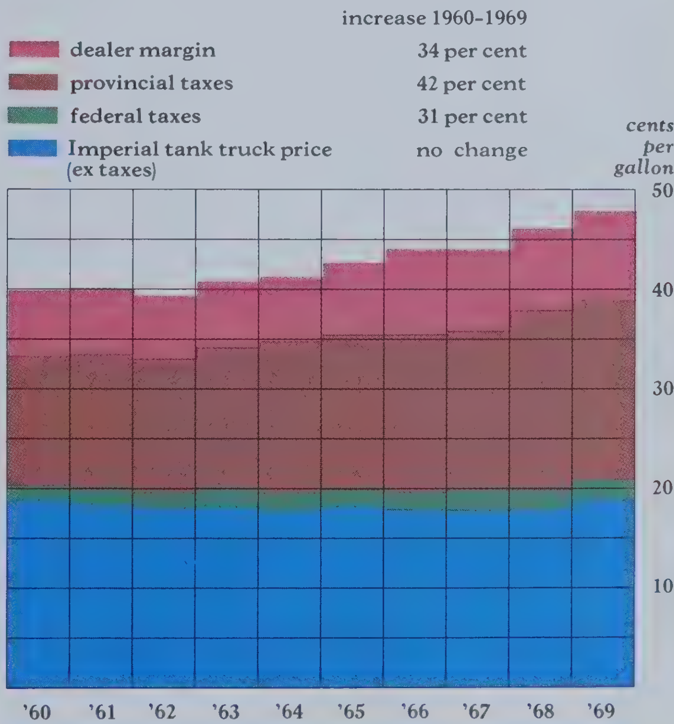
Petroleum products sales in the farm market were satisfactory during the year, but there was a sharp decrease in sales of chemical products such as fertilizers and herbicides. This was due primarily to the economic situation which now exists in the prairie provinces where export sales of wheat have fallen off and large surpluses are in storage.

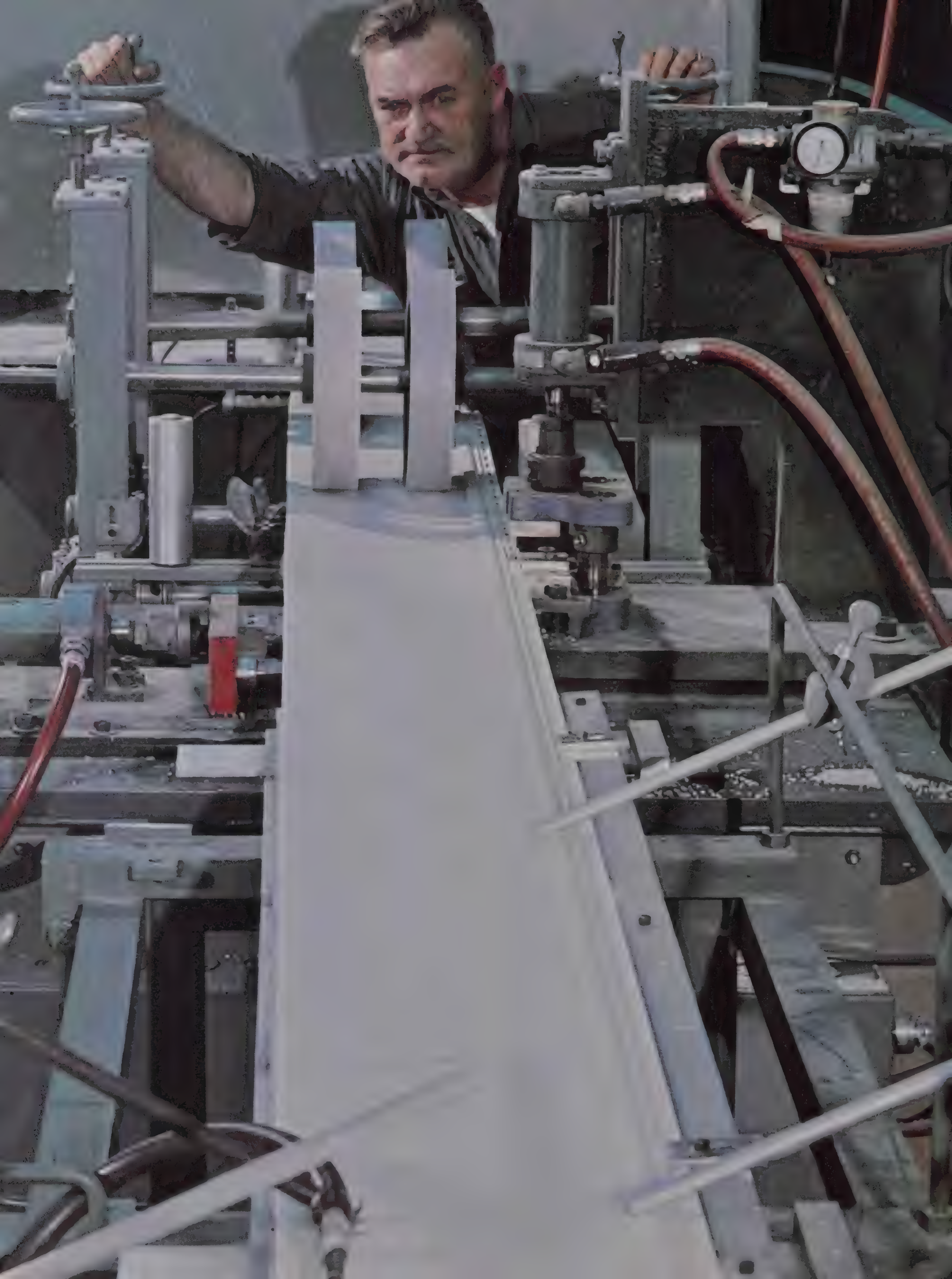
In the non-energy market the company experienced continued success with its line of home products. The water heater program, introduced in 1968, has been particularly successful.

In December Imperial entered into an agreement with S. B. McLaughlin Associates of Port Credit, Ont., to participate in development of a new city at Mississauga, west of Metropolitan Toronto. Under the agreement Imperial will provide home heating requirements and service station facilities, as well as building materials.

In 1969 the Alberta Gasoline Marketing Enquiry Committee, commonly referred to as the Mac-

COMPONENTS, ESSO GASOLINE PRICE
(weighted average, prices as at December 31, at ten principal cities)





Left: Vinyl siding for residential and commercial application was developed by Building Products of Canada Limited.

Above: Member of Sarnia applications laboratory examines experimental plastic bottles made from polyvinyl chloride (PVC).

kenzie Committee, submitted its report to the Alberta government. The report was highly critical of the oil industry's dealer relations. Imperial made a thorough item-by-item analysis of the Committee report, and made this analysis public. The company found that, among other gross errors, in every reference to a case involving Imperial which could be identified, the report was either wrong or incomplete, or both.

Chemical and Building Products

Sales of chemical products totalled $72 million in 1969, compared with $68 million in 1968.

Imperial's new fertilizer plants at Redwater, Alta., were officially opened in October by Premier Harry Strom. While the decline in Canadian wheat sales has affected domestic sales of fertilizers, the company is actively pursuing export markets. The first overseas shipment took place in December when 14,000 tons of diammonium phosphate fertilizer were sold to India.

Sales of polyvinyl chloride increased in 1969 and the company's PVC plant at Sarnia is currently being expanded to increase production by 30 per cent. Exports of heptene to Europe and of methanol to Europe and the U.S. showed significant gains. Sales of Poli-Twine Corporation Ltd. of Saskatoon, a wholly-owned Imperial subsidiary, increased during the year, particularly in the area of agricultural harvest twines.

Late in the year Imperial announced the formation of a new division, Esso Chemical Canada, which is responsible for all aspects of the company's chemicals business. The change was made not only to strengthen internal organization in this area, but to emphasize Imperial's position in the Canadian chemical business and to point up the fact that in this field it is backed by the marketing and technological strengths of Esso Chemical Co. Inc. and its world-wide affiliates.

Sales of Building Products of Canada Limited increased again, particularly in the area of residential construction. Development work on production of vinyl siding for both residential and commercial construction was completed during the year. Market tests were made during 1969; the company expects to introduce this new product to the general market in 1970. In connection with the Mississauga City development, mentioned earlier, Building Products will provide substantial amounts of materials such as vinyl siding, roofing products, plastic pipe and floor coverings.

In recognition of its air/water conservation efforts, during 1969 Building Products received a major award from the Canadian Institute on Pollution Control and a commendation from the Quebec Water Board.

Research and Development

The company's research program continued at a high level during 1969 with expenditures totalling $18 million. As a result of the conclusion of the FIOR project at Dartmouth N.S. research expenditures were, however, lower than in the previous year.

In the fields of exploration and development, the production research and technical services laboratories in Calgary continued their extensive program to develop the technology necessary for Arctic operations. Particular effort has been made to develop means of minimizing environmental disturbances. In this regard, in addition to basic permafrost studies Imperial is experimenting with methods to stabilize and restore disturbed ground in the Arctic tundra. During the year the Calgary research group also instituted "Operation Nutcracker". Devices which resemble giant nutcrackers were installed in the Arctic to measure the force exerted by moving ice on fixed structures — information that is needed to carry out offshore drilling in the Arctic.

At Sarnia, the research department developed improved processes for the manufacture of some grades of polyvinyl chloride: reactor output of the most widely used grade was increased some 35 per cent. The department also developed the process used in the new heating oils treating unit installed at Sarnia during the year—the largest and most modern such unit in Canada.

Imperial Oil Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEARS 1969 AND 1968		1969	1968
REVENUES		*millions of dollars*	
Sales and other operating revenues	$	1,511	1,432
Investment and other income	$	25	23
	$	1,536	1,455
EXPENSES			
Crude oil, products and merchandise purchases	$	868	822
Operating, exploration and administrative expenses	$	388	357
Depreciation and amortization (note 5, page 20)	$	56	52
Income taxes (note 4, page 20)	$	50	49
Taxes, other than income taxes	$	70	66
Interest and discount on long term debt	$	10	9
	$	1,442	1,355
EARNINGS FOR THE YEAR	$	94	100
per share	¢	73	78

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEARS 1969 AND 1968		1969	1968
SOURCE OF FUNDS		*millions of dollars*	
Funds from operations (earnings plus depreciation, amortization and deferred income taxes)	$	172	170
Debentures issued	$	50	50
Capital stock issued	$	1	3
Sales of property, plant and equipment	$	5	5
	$	228	228
USE OF FUNDS			
Capital expenditures for property, plant and equipment	$	109	156
Dividends paid	$	68	67
Increase in long term receivables, investments and other assets	$	3	2
Reduction of long term debt	$	—	24
	$	180	249
INCREASE (DECREASE) IN WORKING CAPITAL	$	48	(21)

The Notes to the Financial Statements are a part of these statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1969 AND 1968		1969	1968
CURRENT ASSETS		*millions of dollars*	
Cash, including time deposits	$	36	44
Marketable securities, at the lower of cost and market	$	15	1
Accounts receivable (note 6, page 21)	$	273	276
Prepaid expenses	$	8	6
Inventories, at the lower of cost and net realizable value:			
crude oil, products and merchandise	$	171	160
materials and supplies	$	14	11
	$	517	498
deduct:			
CURRENT LIABILITIES			
Bank loans	$	13	37
Short term notes	$	24	—
Accounts payable and accrued liabilities (note 6, page 21)	$	164	166
Income and other taxes payable	$	15	22
Long term debt due within one year	$	—	20
	$	216	245
WORKING CAPITAL	$	301	253
add:			
PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS			
Property, plant and equipment, at cost less accumulated depreciation and amortization (note 5, page 20)	$	859	811
Long term accounts receivable, investments and other assets (note 7, page 21)	$	91	88
CAPITAL EMPLOYED	$	1,251	1,152
deduct:			
LONG TERM LIABILITIES AND DEFERRED CREDITS			
Long term debt (note 8, page 21)	$	178	128
Employee annuity and contingent obligations	$	13	13
Deferred income taxes (note 4, page 20)	$	127	105
	$	318	246
SHAREHOLDERS' INVESTMENT	$	933	906
This investment is evidenced by			
Capital stock (note 9, page 21) Authorized—160,000,000 no par value shares Issued 1969—128,527,727 shares: 1968—128,437,096 shares	$	259	258
Earnings retained and used in the business			
at beginning of year	$	648	615
earnings for the year	$	94	100
dividends paid	$	(68)	(67)
at end of year	$	674	648
	$	933	906

The Notes to the Financial Statements are a part of this statement.

Approved by the Board.

Notes to the Financial Statements

1. GENERAL

The consolidated financial statements include the accounts of Imperial Oil Limited and all its subsidiaries.

2. CONTINGENCIES AND COMMITMENTS

The company is a party to agreements under which it has undertaken to guarantee or otherwise protect certain principal and interest obligations of various crude oil pipe line companies. The long term indebtedness of these companies for which the company is contingently obligated is shown in the table below. The pipe line companies are meeting these obligations as they fall due and present indications are that they will continue to do so.

		1969	1968
		millions of dollars	
Interprovincial Pipe Line Company	$	—	19
Montreal Pipe Line Company Limited	$	2	2
Portland Pipe Line Corporation	$	5	6
Rainbow Pipe Line Company, Ltd.	$	—	5
Trans Mountain Oil Pipe Line Company	$	15	16
	$	22	48

The company has guaranteed or agreed to guarantee obligations of others, chiefly principal of and interest on borrowings, in the aggregate principal amount of $14 million.

Tanker charter hire and other rentals and commitments payable by the companies under long term agreements approximate $12 million annually.

3. REMUNERATION OF DIRECTORS

The total remuneration paid in 1969 to directors of the company was $909,000. All directors are full time employees of the company.

4. INCOME TAXES

Income taxes charged in the earnings statement have been computed on the tax allocation basis except for the effect of producing well costs. Management does not believe that tax allocation for this item is appropriate at this time, and this view conforms with the general practice in the oil and gas industry. The Canadian Institute of Chartered Accountants recommends tax allocation whenever timing differences occur between accounting income and taxable income. If this basis had been followed for producing well costs, deferred income taxes would have increased and earnings decreased by $300,000 in 1969 and $3 million in 1968; the accumulated amount in this regard would have been $38 million at December 31, 1969.

The companies carry on operations in all phases of the complex petroleum and petrochemical industry, and the related income tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. In 1968, the company received an assessment on the gain realized in 1963 on the disposal of natural gas storage rights and facilities. As required by law the company has paid the tax of $4 million including interest and, on the advice of counsel, has filed a notice of objection to the assessment. This payment has been included in Funds on Deposit with Governments and Others (note 7). No income tax provision has been made for this item.

The companies have made what they believe are adequate provisions for income taxes payable. The income tax returns of the company and its principal subsidiaries have been assessed up to and including the year 1965.

5. PROPERTY, PLANT AND EQUIPMENT AT DECEMBER 31

		1969	1968
Gross investment—at cost		*millions of dollars*	
Exploration and Production	$	471	453
Refining Petroleum Products	$	426	416
Chemical and Building Products	$	185	162
Marketing	$	306	273
Transportation	$	143	140
Other	$	33	32
Total	$	1,564	1,476
Accumulated depreciation and amortization			
Exploration and Production	$	201	190
Refining Petroleum Products	$	260	255
Chemical and Building Products	$	56	44
Marketing	$	110	101
Transportation	$	68	65
Other	$	10	10
Total	$	705	665
Net Investment	$	859	811

Depreciation of plant and equipment is based on the estimated service lives of the assets, calculated on the straight line method. Amortization of producing well costs and of capitalized producing lease costs is determined on the unit of production method.

The charges against earnings in 1969 for amortization of producing well costs and capitalized producing lease costs amounted to $6 million and the accumulated provision as at December 31, 1969

amounted to $122 million.

In 1969 the company adopted the policy of capitalizing exploration expenditures to the extent such expenditures relate to the acquisition of acreage expected to be productive. The company's past ratios of successful exploration are used for this purpose. Previously, all such costs were charged against earnings. The effect of this change on 1969 earnings was not significant.

6. AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES

At December 31, 1969 balances owing to and from affiliated companies, all of which arose in the normal course of operations, are $24 million and $2 million respectively.

7. LONG TERM ACCOUNTS RECEIVABLE, INVESTMENTS AND OTHER ASSETS AT DECEMBER 31

		1969	1968
		millions of dollars	
Long term accounts receivable	$	56	54
Investment in other companies, at cost:			
With quoted market value 1969—$208 million 1968—$180 million	$	16	16
Without quoted market value	$	8	8
Funds on deposit with governments and others	$	7	8
Deferred charges	$	4	2
	$	91	88

8. LONG TERM DEBT

		1969	1968
Imperial Oil Limited		*millions of dollars*	
3% Sinking Fund Debentures, 1949 Issue, matured December 15, 1969	$	—	20
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	$	28	28
6¾% Sinking Fund Debentures, 1967 Issue, maturing January 2, 1987	$	50	50
7¼% Serial Debentures, 1968 Issue, maturing January 2, 1976	$	10	10
7⅜% Sinking Fund Debentures, 1968 Issue, maturing January 2, 1988	$	40	40
8½% Sinking Fund Debentures, 1969 Issue, maturing August 15, 1989. This issue is subject to the holders' option to require prepayment of principal on August 15, 1974.	$	50	—
Total	$	178	148
Amount due within one year	$	—	20
	$	178	128

The annual payments required on the above indebtedness are $2.5 million in 1971 and $7.0 million in each of the years 1972, 1973 and 1974.

9. CAPITAL STOCK

Under the company's Incentive Stock Option Plans employees may be granted options to purchase unissued common shares of the company at not less than 95 per cent of the market price on the date of granting the options. As of December 31, 1969, there were outstanding options for shares exercisable at prices of $10.778, $12.855, $12.765, $15.793 and $17.930. Options for 555,265 shares may be exercised currently, and for 309,000 shares after August 20, 1970, and for 326,825 shares after July 15, 1971. Included in the above are 331,000 shares under option to directors or officers. In 1969 the company issued 90,631 shares for $1,191,000 all under the terms of the Plans.

10. EMPLOYEE RETIREMENT PLANS

The companies have a number of retirement plans covering substantially all employees. A recent actuarial valuation indicated that all liabilities under the principal plan are fully funded by assets held by trustees.

AUDITORS' REPORT TO THE SHAREHOLDERS OF IMPERIAL OIL LIMITED

We have examined the Consolidated Statement of Financial Position of Imperial Oil Limited and its subsidiary companies as at December 31, 1969 and the Consolidated Statements of Earnings and Source and Use of Funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto
March 5, 1970

Imperial Oil Limited and Subsidiary Companies

TEN YEAR FINANCIAL SUMMARY *(dollars in millions except share and employee amounts)*

Revenues

YEAR	Petroleum products	Crude oil and natural gas	Chemical and building products	Other products and merchandise	Other operating revenues	Total operating revenues	Investment and other income
1969	$877	$437	$123	$59	$15	$1,511	$25
1968	857	389	115	56	15	1,432	23
1967	817	321	107	46	8	1,299	20
1966	784	257	96	39	7	1,183	18
1965	773	247	85	34	6	1,145	17
1964	731	231	65	33	5	1,065	16
1963	702	226	37	30	6	1,001	14
1962	680	219	33	26	7	965	13
1961	654	182	28	25	6	895	13
1960	672	133	23	27	7	862	12

Taxes

YEAR	Income taxes	Federal sales tax	Property and other taxes	Total charged against income	Road and other taxes	Total taxes generated	Exploration and production
1969	$50	$52	$18	$120	$233	$353	$24
1968	49	49	17	115	221	336	29
1967	54	47	16	117	196	313	24
1966	44	43	16	103	197	300	25
1965	41	40	14	95	184	279	41
1964	37	36	14	87	164	251	33
1963	40	27	12	79	148	227	28
1962	43	28	12	83	142	225	25
1961	47	28	11	86	132	218	32
1960	46	28	11	85	123	208	24

Financial Position at Year End

YEAR	Current assets	Current liabilities	Current ratio	Working capital	Property, plant and equipment-net	Capital employed	Total assets
1969	$517	$216	2.4	$301	$859	$1,251	$1,467
1968	498	245	2.0	253	811	1,152	1,397
1967	449	175	2.6	274	713	1,073	1,248
1966	393	143	2.7	250	641	974	1,117
1965	402	130	3.1	272	593	937	1,067
1964	380	116	3.3	264	563	904	1,021
1963	389	125	3.1	264	545	877	1,002
1962	351	102	3.4	249	544	851	954
1961	336	107	3.2	229	548	832	939
1960	318	98	3.2	220	535	804	903

**Weighted Average*

	Net Earnings		Dividends			Funds from Operations		
Total revenues	Total	Per share*	Total	As a percentage of earnings	Per share	Total	Per share*	YEAR
$1,536	$ 94	¢ 73	$68	72%	¢ 52½	$172	$1.33	1969
1,455	100	78	67	67	52½	170	1.33	1968
1,319	96	75	67	70	52½	160	1.26	1967
1,201	92	73	63	69	50	149	1.17	1966
1,162	86	68	59	68	46¼	145	1.15	1965
1,081	79	62	55	70	43¾	135	1.06	1964
1,015	71	56	49	69	38¾	118	.93	1963
978	68	54	44	65	35	116	.92	1962
908	68	54	44	65	35	115	.91	1961
874	61	49	42	69	33¾	109	.87	1960

Capital Expenditures					Exploration Expenditures	
Refining petroleum products	Chemical and building products	Marketing	Transportation and other	Total	Total	YEAR
$20	$17	$38	$10	$109	$25	1969
38	46	29	14	156	32	1968
37	22	34	12	129	36	1967
25	22	19	12	103	37	1966
9	9	18	9	86	30	1965
6	17	11	5	72	28	1964
6	1	11	7	53	28	1963
5	1	12	6	49	27	1962
4	4	12	10	62	25	1961
7	1	18	9	59	31	1960

			Shareholders at Year End		Employees			
						PAYROLL AND BENEFITS		
Long term debt	Share-holders' investment	Earnings as % of shareholders' investment*	Number	Shares issued *(thousands)*	Number December 31	Total	Per employee* *(thousands)*	YEAR
$178	$933	10.2%	50,188	128,528	15,516	$162	$10.5	1969
128	906	11.3	37,780	128,437	15,164	150	9.9	1968
102	870	11.2	39,578	128,202	14,933	136	9.1	1967
56	830	11.3	41,088	127,167	14,289	125	8.8	1966
58	798	11.0	41,208	126,885	13,693	111	8.1	1965
64	769	10.4	40,924	126,674	13,623	104	8.0	1964
69	743	9.7	42,057	126,443	11,998	95	7.8	1963
73	712	9.8	43,195	126,428	12,257	95	7.5	1962
76	679	10.2	43,562	126,408	12,578	92	7.2	1961
80	649	9.5	45,949	125,856	13,007	92	7.0	1960

Imperial Oil Limited and Subsidiary Companies

TEN YEAR OPERATING SUMMARY

Exploration and Production

				GROSS RECOVERABLE RESERVES*		GROSS PRODUCTION	
YEAR	Gross land holdings (*millions of acres*)	Net wells drilled exploratory	Net wells drilled development	Crude oil and natural gas liquids (*millions of bbls.*)	Natural gas (*billions of cubic feet*)	Crude oil and natural gas liquids (*thousands of bbls. per day*)	Natural gas (*millions of cubic feet per day*)
1969	45	54	31	1702	3340	179	390
1968	46	90	54	1593	3117	173	381
1967	45	64	71	1517	2860	163	334
1966	50	81	87	1534	2964	146	268
1965	51	66	136	1522	2706	133	222
1964	32	84	116	1437	2620	131	193
1963	22	72	137	1264	2285	126	185
1962	17	65	171	1138	2447	124	170
1961	20	52	214	1025	2047	111	131
1960	20	68	100	1001	1576	90	119

Crude Supply and Utilization—thousands of barrels per day

	CANADIAN CRUDE					IMPORTED CRUDE	
	Supply		Utilization				
YEAR	Net production	Purchases from others	Domestic sales	Export sales	Used in Imperial refineries	For Imperial refineries	Total crude purchases
1969	154	500	255	162	237	140	640
1968	150	443	225	145	223	136	579
1967	141	386	176	131	220	130	516
1966	127	339	153	94	219	127	466
1965	115	335	158	82	210	122	457
1964	114	305	149	77	193	121	426
1963	109	304	148	74	191	128	432
1962	108	297	143	75	187	118	415
1961	97	272	127	65	177	114	386
1960	79	236	96	44	175	110	346

Petroleum Products—thousands of barrels per day

			SALES			
YEAR	Crude processed	Refinery capacity Dec. 31	Gasolines	Middle distillates	Other products	Total
1969	377	422	151	143	87	381
1968	359	405	145	142	91	378
1967	350	397	141	138	87	366
1966	346	378	136	134	82	352
1965	332	370	128	134	83	345
1964	314	355	124	125	73	322
1963	319	345	120	121	68	309
1962	305	339	116	118	67	301
1961	291	338	112	108	61	281
1960	285	338	115	107	64	286

** After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved.*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